

BLANK

PAGE

FILE COPY

Office - Supreme Court, U. S.

FILED

MAY 26 1938

CHARLES ELMORE CROPLEY
CLERK

IN THE

Supreme Court of the United States

October Term, 1937

No. [REDACTED] 1

GENERAL TALKING PICTURES CORPORATION,
Petitioner,

vs.

WESTERN ELECTRIC COMPANY, INC., ELEC-
TRICAL RESEARCH PRODUCTS INC., and
AMERICAN TELEPHONE AND TELEGRAPH
COMPANY,

Respondents.

PETITION FOR REHEARING.

SAMUEL E. DARBY, JR.,
EPHRAIM BERLINER,
Counsel for Petitioner.

27

BLANK

PAGE

28

IN THE

Supreme Court of the United States

October Term, 1937

No. 357

GENERAL TALKING PICTURES CORPORATION,
Petitioner,

vs.

WESTERN ELECTRIC COMPANY, INC., ELEC-
TRICAL RESEARCH PRODUCTS INC., and
AMERICAN TELEPHONE AND TELEGRAPH
COMPANY,

Respondents.

PETITION FOR REHEARING.

Petitioner respectfully petitions for a rehearing of this case.

It does so because the opinion of the Court in effect upsets the law announced and consistently followed by this Court in a number of cases for approximately one hundred years, without expressly overruling that law and without differentiating therefrom. The result of the decision involves not only a grave injustice to the petitioner and the destruction of its business, but it has reestablished the expressly overruled doctrine of *Henry v. Dick*¹ in patent cases, with a scope so far greater than was there announced

¹ 224 U. S. 1.

as to be a matter of vital public interest and importance. Indeed, so far reaching are the implications of the decision that it became the subject of extended reference in the financial and general press of the country.

It is respectfully submitted that if the decision remains unaltered it will not only offer to those so disposed an avenue of escape from the prohibitions of the anti-trust laws, but will again unsettle and surround with doubt the question as to the limits of the patent grant with respect to the rights of purchasers of patented articles, which, until this decision, seemed to have been put at rest by a progressive and consistent series of decisions culminating and reviewed in the *Boston Store* and first *Shoe Machinery* cases.²

The Court, in its decision, apparently lost sight of the fact that this is an ordinary patent infringement suit. Since the earliest days of this Court's consideration of patent questions it committed itself to the interpretation of the patent statute that a patent owner could part with one or more of the exclusive privileges conferred upon him by a patent grant on such terms and conditions as he might exact and the purchaser or licensee be willing to assume. Early in patent litigation history, patent owners sought to impose conditions to the sale or licensed manufacture or use of patented articles. Those conditions ran the gamut of place of use, time of use, materials used, and resale price. Clearly, there was nothing unreasonable in any of these requirements exacted by the patent owner as a condition to the sale of a patented article or a license to others to make, use or sell it. However, this Court, in a continuous line of authorities—

² *Boston Store v. American Graphophone Co.*, 246 U. S. 8; *United States v. United Shoe Machinery Co.*, 247 U. S. 32.

broken but once by its decision in *Henry v. Dick*,³ which was then promptly overruled—held that these conditions could not be enforced against *purchasers*. This line of authorities includes the recent *Carbice* case⁴ and the *Barber Asphalt* case⁵ decided this present term. In none of these decisions was it held that the condition of sale was unreasonable or violative of some law. Each decision, in principle, and some of them expressly, was founded on the proposition that the sale of a patented article *exhausted the monopoly conferred by the statute and forever freed that article from the monopoly of the patent under which it had been sold*.

Now, however, the Court having before it what is perhaps the last or only remaining attempted restriction, namely the *manner or purpose of use* of the patented article sold, by its present decision sanctions such a restriction on the patented article *after its sale*. Thus, though as above stated, under the many prior decisions of this Court no restriction may be placed by a patentee on an article sold under the patent with respect to its place of use, its time of use, the materials used with it, or its resale price, the patentee may now control its *manner or purpose of use* throughout its useful life.

In reaching this decision, the Court has apparently overlooked the fact that there is no distinction in principle between any of these restrictions; and this is emphasized by the failure of the Court in its present decision in this case to distinguish the restriction here attempted, in principle or in law, from the other restrictions which this Court has consistently invalidated.

Thus, under the present decision of the Court in this case, one who purchases a patented lighter in any cigar

³ 224 U. S. 1.

⁴ 283 U. S. 27.

⁵ 302 U. S. 458; 82 L. Ed. 276.

4

store in the country for the stated purpose of lighting cigars, which lighter contains a notice thereon and thereby conveys knowledge to the purchaser that it is licensed by the patentee to light only cigarettes, would be guilty of infringing the patent if the lighter were used to light a cigar, and the retailer would have made an illegal sale. This same analog, given in our main brief (pp. 13-14) was swept aside by counsel for respondent at the argument of the case, *not* because it was *inapplicable*, nor because it was *unsound*, but solely because it was "extreme". We admit that it is extreme, but the point is that it is *legal* under the Court's present decision, and it fittingly illustrates the extremes to which patent owners may now go under the Court's decision in this case, as well as the inevitable far reaching consequences thereof.

Thus, by the Court's decision in this case, every patent owner is empowered, merely by a notice attached to a patented article, to control the manner or purpose of use of the article by the purchaser. Fountain pens may be sold only for signing letters; electric lamps only for private use; automobiles only for commercial use. Similar analogs, unlimited in number, can be readily drawn. It was undoubtedly because of these considerations, in previously arriving at a conclusion directly opposite to that arrived at by the majority in the present case, that this Court said:^a

"The inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration".

At the outset, therefore, it is submitted that the question presented by this case is of such far reaching effect and of

^a *Keeler v. Standard Folding Bed Co.*, 157 U. S. 659, 667.

such great public importance as to warrant this Court granting a rehearing by a full bench.

The Court puts its opinion squarely on the proposition that the *sales by the licensee* were outside the scope of the license, and an infringement because the licensee and petitioner *knew* that the use to which the amplifiers were to be put was not one of the permitted uses specified in the license and on a restrictive use notice that the licensee, in accordance with his contract with the patentee, had affixed to the articles before they passed into the hands of the petitioner as purchaser.

It is submitted that this conclusion is erroneous on principle, wholly unsupported by authority and, indeed, contrary to the clear import of many decisions of this Court, none of which appears to have been considered in the majority opinion.⁷

The primary issue here is not *knowledge* or *intention*. Knowledge of some purported restriction, either expressed in the form of a notice, or implied in the limited grant to an assignee or licensee, necessarily appears in *every* case that ever came before this Court where a patentee sought to enforce the restriction against the purchaser of a patented article. Yet, in none of them did the patentee prevail. Indeed, in one instance the purchaser actually *agreed in writing* with the dealer-licensee to comply with the restriction sought to be imposed on the patented article, but was held by this Court to be free of the covenant;⁸ and in an-

⁷ *Adams v. Burke*, 84 U. S. 453; *Hobbie v. Jennison*, 149 U. S. 355; *Keeler v. Standard Folding Bed Co.*, 157 U. S. 659; *Bauer v. O'Donnell*, 229 U. S. 1; *Straus v. Victor*, 243 U. S. 490; *Motion Picture Patents Co. v. Universal Film Co.*, 243 U. S. 502; *Boston Store v. American Graphophone Co.*, 246 U. S. 8; *United States v. United Shoe Machinery Co.*, 247 U. S. 32.

⁸ *Boston Store v. American Graphophone Co.*, 246 U. S. 8.

other instance, *knowledge* of intention to use the patented article for purposes outside of the scope of the seller's right under the patent grant was held to be equally irrelevant.⁹

Nor is the issue here whether a patentee may reserve rights under a patent in dealings with a *licensee*, which is all that was held in the pertinent cases and text cited in the majority opinion.¹⁰ The present controversy is concerned exclusively with the rights of *purchasers* of patented articles, and *not* with the relations between patentees and their *licensees*.

The sole question can be nothing more than the *validity* of the attempted restriction here. (See *Dr. Miles Medical Co. v. Park & Sons*, 220 U. S. 373, 395.) If it is invalid it becomes utterly irrelevant to consider what the Transformer Company or the petitioner *knew* or *intended* to do about it. As Judge Hough put it, at the trial of the *Motion Picture Patents* case:¹¹

" * * * I apprehend that the question here is whether the Prague Amusement Co. could not do exactly what it is accused of having done, no matter how many conversations it had with the Patent Co., or any of its affiliated concerns. * * * The question is, was it lawful. That is the whole point."

The decisions of this Court leave no room for doubt that such attempted restrictions intended to attach to pat-

⁹ *Hobbie v. Jennison*, 149 U. S. 355. See pp. 36-38 of Petitioner's Brief.

¹⁰ See *United States v. General Electric Co.*, 272 U. S. 476, in which it is indicated that even between licensor and licensee the reservations must of course be reasonable and not violative of general law.

¹¹ *United States Supreme Court Record*, pp. 54-55, in 243 U. S. 502.

ented articles *after their sale* are unenforceable under the patent law. Indeed, those cases have been twice held by this Court to lay down rules applicable to *all* types of restrictions, whether as to use, resale or otherwise. So, speaking of the effect of the *Motion Picture Patents* case, this Court stated¹² it had held:

" * * * that, as by virtue of the *patent law*, one who had sold a patented machine and received the price, and had thus placed the machine so sold beyond the confines of the patent law, could not *by qualifying restrictions as to use*, keep under the patent monopoly a subject to which the monopoly no longer applied."¹³

And, in a later case, this Court held:¹⁴

"Indeed, we said in the *Paper Bag Patent* case, that he (the patentee) may keep his invention out of use. Therefore, he necessarily has the power of granting it to some and withholding it from others, a right of selection of persons and terms. *There is, however, a limitation upon him; he cannot grant the title and retain the incidents of it: Straus v. Victor Talking Machine Co.* 243 U. S. 490; *Bauer v. O'Donnell* 229 U. S. 1; *Motion Picture Patents Co. v. Universal Film Co. supra.*

These cases have received review and application in *Boston Store of Chicago v. American Graphophone Co.* 246 U. S. 8. The principle of them was expressed to be that *where an article has been sold it passes beyond the monopoly given by the patent and conditions cannot be imposed upon it.*" (Matter in parenthesis ours.)

¹² *Boston Store v. American Graphophone Co.*, 246 U. S. 8 at p. 25.

¹³ Italics in this brief ours, unless otherwise stated.

¹⁴ *United States v. United Shoe Machinery Co.*, 247 U. S. 32 at p. 58.

The majority opinion in the case at bar does not distinguish these cases. It does not even mention them. It does not question that the Transformer Company was licensed to make and sell the amplifiers, and that it affixed the restrictive notices required by the agreement to be affixed to the amplifiers on their sale. Nor does it question the fact of sale,¹⁵ nor that *title* to the amplifiers passed to the petitioner. Neither does the opinion concern itself with the effect of these "notices", the only source of knowledge of purported restrictive use intended by the patentee to be given by the Transformer Company to purchasers of the amplifiers. The parties to the agreement so understood it and the agreement itself so expressly provided.¹⁶

Had the majority opinion considered the "license notices" it would have been met with the Court's own holding in the *Motion Picture Patents* case, where; in referring to the issues "arising with increasing frequency * * *" as to whether a patentee by notice can prescribe "the con-

¹⁵ Petitioner and respondent stipulated at the trial that the amplifiers in suit were made and *sold* by the licensee to the petitioner (Vol. I, fol. 194).

¹⁶ (a) In a letter to petitioner, the Transformer Co. wrote: "That is the type of license notice which is placed upon the amplifier and that is the only way which we can sell them". Vol. II, p. 732, fol. 2195.)

(b) In a letter to the licensee, answering an inquiry as to the "notice", the licensor wrote: "The net result of this is that if *anyone buys* an * * * amplifier unit from you he may use it for a radio receiving set but he cannot use it for an electric phonograph * * *" (Vol. II, p. 1214, fol. 3642). See also par. 5 of the license agreement (Vol. III, p. 1418, fols. 4253-4254).

ditions of its use", on the *sale* of a patented article, this Court said:¹⁷

"The statutes relating to patents do not provide for any such notice and it can derive no aid from them."

If, therefore,—as this Court *has* repeatedly held, and by this decision does not question—conditions cannot attach *under the patent law* to patented articles after their *sale, i. e.*,—that they cannot be enforced in an *infringement* suit *whatever* may be the remedy under contractual engagements,¹⁸ no principle of law or of logic will make the purchaser an infringer because there is an *intention* to disregard those conditions.

If, as this Court holds, the *sale* to the petitioner was beyond the scope of the license because the licensee and the petitioner *knew* the article would thereafter be *used* for purposes other than those specified in the "notice" affixed to the article when sold, we can but repeat from our notes the question asked of respondents' counsel on argument by Mr. Justice STONE: "If the *sale* was *illegal*, then even a use by the purchaser *under the license notice* would be bad?" The question remained unanswered, but it points unerringly to the fallacy in the entire line of reasoning that led to the conclusion reached in the majority opinion.¹⁹

It is obvious that petitioner, in purchasing from the American Transformer—the licensed manufacturer—could

¹⁷ *Motion Picture Patents Co. v. Universal Film Co.*, 243 U. S. 502 at p. 509.

¹⁸ *Radio Corporation of America v. DeForest Radio & Telegraph Co.*, 97 N. J. Eq. 37. See also Note 17.

¹⁹ See Petitioner's Brief, pp. 34-38; and Petitioner's Reply Brief, pp. 5-10, where the error in the "scope of license" theory is treated at length.

have advised the manufacturer that the amplifiers were to be used for the restricted licensed purpose, or for the unlicensed purpose, or could have remained mute as to the intended use thereof. Even under this Court's decision, in two of such cases the sale would have been *legally* made by American Transformer, but in all three of such cases if the amplifiers had been used in motion picture equipment, petitioner, under the Court's decision, would have been an infringer. This result follows not because the manufacturer's sale was an *illegal* one, or because of *knowledge* on the part of the manufacturer, but solely because of the *use* to which the purchased amplifiers were eventually put. The fallacy of the Court's opinion, as a matter of legal reasoning, is thus believed to be evident.

Another illustration fittingly shows the error of reasoning and conclusion in the majority opinion. The amplifiers with "notice" attached are sold in countless numbers across the counters of retail stores throughout the country. They were acquired from licensed manufacturers having license agreements with respondents identical in terms with that of Transformer Company—doubtless many of them from Transformer Company. Can it be questioned that under these circumstances the amplifiers were *legally* sold by the licensee to the retail store? If petitioner had purchased its amplifiers from the retailer for the stated purpose of using them in motion picture equipment, could it be correctly said that the sale by the manufacturer to the retailer and then by the retail dealer were illegal sales? Suppose petitioner had made *no* statement as to the purpose for which it intended to use the amplifiers. Would the sale by the manufacturer to the retailer and then by the retail store have been illegal sales? Suppose, again, petitioner had stated to the retail dealer that its intended use of the amplifier was

for the restricted use specified on the "notice" attached thereto. Would the sale have been an illegal sale? It is obvious that in all of these cases the *sale* was *legally* made by the manufacturing licensee to the retail store, and the *sale* was likewise *legally* made by the retail store to petitioner. Yet, in each case, under the present decision of this Court, if petitioner used the amplifiers, so bought from the retail dealer, in connection with motion picture equipment, petitioner would be an infringer. This again fittingly illustrates and conclusively shows that in the final analysis it is not a question of knowledge, intent, notice, or contractual limitation on the manufacturing licensee that determines whether or not an infringement occurs after a sale of the patented article. Quite to the contrary, *it is determined solely by the use to which the article is put.* And such use becomes the controlling factor, regardless of in whose hands the article may ultimately be found, and regardless of the number of hands through which it has passed by sale or gift. The absurdity of this result, which inevitably flows from the Court's present decision in this case, we are confident has not been considered by this Court, and alone should warrant and induce a rehearing.

Contributing to the error in the Court's decision, it is respectfully urged, are (1) a misapprehension of certain important facts which perhaps petitioner did not make sufficiently clear in its briefs; (2) a failure to recognize that once patented articles are sold, they become subject to the general law, and (3) that the rules of patent law developed by this Court as between patentee and licensee on the one hand, and patentee and purchasers of patented articles on the other, run in different channels so that what is applicable to one type of relationship is not necessarily, and, under the decisions of this Court, is definitely not applicable to the other.

To illustrate:

In two portions of the opinion it is stated that the amplifiers were not licensed to be sold for any commercial use. That is error. An inspection of the license agreement will demonstrate that purported licensed uses cover the field of "radio broadcast reception" unlimited, by express definition, to any private or "home" field.²⁰ Petitioner mentions this because the opinion states, as respondents urged in their briefs, though without support from the record, that respondents reserved the commercial field to themselves. What they really sought to do was to license the use of the amplifiers in amateur, experimental and in *certain* commercial fields, and to divide off and reserve *other* commercial uses to themselves and their associates under the radio pool agreements.²¹

There is equally grave error in the assumption by the Court that the Transformer Co. and petitioner both *knew* the sales were outside the scope of the license and that the licensee was not authorized to make them. The record is to the contrary. Though regrettably omitted from the briefs, it is in evidence that both parties acted on advice of counsel and in the honest belief that the Transformer Company had the right to make these sales and the petitioner to purchase.²² *Mitchell v. Hawley*,²³ which the opinion cites as authority for invalidating these sales, is authority for petitioner and not for respondents. The licensee in that case

²⁰ License Agreement, Vol. III, p. 1416, fol. 4248.

²¹ Vol. III, pp. 1305-1413.

²² Vol. I, pp. 368-370, particularly fols. 1108, 1109; fols. 1021-1022, referring to the letter exhibits in Vol. III at pp. 1563-1567.

²³ 16 Wall. 544.

was given *no power of sale whatsoever*. As the lower Court stated in that case:²⁴

"Nothing can be more evident than the purpose expressed in this instrument to put it out of the *power* of Bayley to give any title to the machines. The very act of sale was a violation of the contract and an act of infringement * * *" (italics by the Court).

In the case at bar, however, the power of sale *was* granted, and therefore petitioner acquired *valid title* to the amplifiers it purchased from the Transformer Company. The Court holds, nevertheless, that the very act of sale was an infringement, because of an *intention* to use the articles thereafter in a manner not permitted by the license that went with the article purchased. This basic error in assuming infringement by *intention*, as distinguished from the act of *unpermitted use* is believed to be grounded on a misapprehension of applicable legal principles.

Petitioner submits that if the patentee desires to secure to itself continued control over the *use* of the patented article in the hands of others, he may do so by *leasing* it upon suitable conditions, terminating the *lease* on breach of the conditions; or by selling it under *conditional* sale with proviso for reverter of title to the patentee on breach. But this is the only extent to which the patentee can deal with the article maintaining a control thereof after it has left his hands or those of his licensee to whom a *power of sale* was granted by agreement. If his licensee has allegedly breached any covenant with respect to this sale, the patentee is relegated to an action on the covenants *against the licensee alone*, without any continued right as against the

²⁴ 11 Fed. Cases 883, at 885; affirmed 16 Wall. 544.

purchaser.²⁵ He cannot make a sale with the condition attached that the article shall be used or disposed of in a certain manner, leaving the title, as here, in the purchaser in case of a breach of the condition. Such a conditional sale would be an innovation in our system of jurisprudence, and if it should be permissible, sales of personal property could be disregarded by patentees on the plea that the patent monopoly secured to them a continued monopoly over the patented article, in spite of the general rules of law applying to the transfer of personalty.

Moreover, the Court made serious error upon which its conclusion was, in part at least, based, in asserting that petitioner, in the present case, was not "a purchaser in the ordinary channels of trade." To point out the error it is merely necessary to refer to the Court's prior decision in *Dr. Miles Medical Co. v. Park & Sons*, 220 U. S. 373, 408, as authority for the proposition that any article sold becomes

"an article of commerce and the rules concerning the freedom of trade must be held to apply to it."²⁶

The authorities cited in the majority opinion as a basis for the conclusion of the Court intensify the grave error in finding infringement in the case at bar. Those authorities, including the references to *Robinson on Patents* (with

²⁵ *Mitchell v. Hawley*, 11 Fed. Cases 883 at 885, aff'd. 16 Wall. 544.

²⁶ See also *Coca Cola Co. v. The State*, 225 S. W. 791, 793, where the Court said, of the status of a patented article after its sale,

"Having parted with his ownership therein, it enters the channels of trade as an article of commerce, and is thereafter beyond his (the patentee's) control". (Matter in parenthesis ours.)

one or two minor and irrelevant exceptions), deal solely with the relations between *patentee and licensee*, and the broad reservations of rights permitted to patentees in such cases. The exercise of rights permitted to patentees in such instances rests upon principles utterly apart from those applied by this Court in cases, none of which it cited in the opinion here, involving the rights of *purchasers* of patented articles.²⁷ Patentees went to great pains in cases like *United States v. General Electric Co.*,²⁸ *Bement v. National Harrow Co.*,²⁹ *United States v. United Shoe Machinery Co.*³⁰ to convince this Court that they are not violators of the anti-trust laws, because, they argued, the transactions attacked were *not* sales of patented articles, but merely *license or agency* agreements which the patent monopoly protected so long as *purchasers* of the patented articles were not involved. This Court agreed with them, though in the *Shoe Machinery* case, the Government made a determined but unsuccessful effort to have the Court hold the leases of machinery to be sales, and so outside the scope of the patent laws. But *never*, until the decision in the case at bar (except in the expressly overruled *Dick* case and the cases predicated on the principle there stated), did this or any other Federal Court ever hold a purchaser of a patented article to be an infringer for disobeying, intentionally or otherwise, restrictive conditions sought to be annexed to the subsequent use or disposition of the article in the hands of the buyer. This, too, appears to be the gen-

²⁷ See Petitioner's Reply Brief, pp. 14-18.

²⁸ 272 U. S. 476.

²⁹ 186 U. S. 70.

³⁰ 247 U. S. 32.

eral understanding of what this Court has heretofore held to be the law on the subject.³¹

The unfortunate result of this decision, therefore, is to brand as a knowing infringement and a tortious act,—for infringement is a tort,³²—mere reliance on what this Court has held and repeated in decision after decision in the broadest possible terms. The Transformer Co. which sold the amplifiers to petitioner, with “license notice” restrictions attached, in exact compliance with its license agreement and after notification to petitioner that that is “the only way in which we can sell them”,³³ is held to infringe respondents’ patents, because it *knew* petitioner intended to disregard conditions *which this Court had heretofore held not binding on purchasers of patented articles*. And petitioner, likewise, is said to have infringed because it, too, *knew* that the licensee knew of petitioner’s use of the amplifiers,—a use in strict accordance with counsel’s advice that the attempted limitations on such use were illegal under the decisions of this Court. Petitioner cannot conceive on what principle of law or equity such conduct would constitute deliberate infringement.

Indeed, the grave error in this approach to the problem by the Court becomes evident from a consideration of what *respondents* knew of the alleged infringing sales. If knowledge or intent is to be a test, then the knowledge of all parties must be considered. Respondents having sought the aid of equity in instituting this infringement suit, must come into equity with clean hands. As Mr. Justice BUTLER

³¹ *Chicago Daily News v. Koehler*, 196 N. E. 445, 449-50; 1 *Walker on Patents* (1929) 425; 5 *Williston on Contracts* (1937) 4630-31; 41 *Harvard Law Review* 945, 1002; 24 *Ruling Case Law—Sales*—sec. 660.

³² *The Carbice case*, 283 U. S. 27, 33.

³³ Vol. II, p. 732, fol. 2195.

recently pointed out²⁴ in quoting from an earlier opinion of this Court;

"It is a principle in chancery, that he who seeks relief must have acted in good faith. The equitable powers of this Court can never be exerted in behalf of one who has acted fraudulently or who by deceit or any unfair means has gained an advantage. To aid a party in such a case would make this Court the abetter of inequity."

Viewed in the light of these principles, respondents' conduct cannot bear scrutiny. The very tenor of the license agreements they made with the Transformer Company and others for the making and sale of the amplifiers²⁵ and their conduct with respect to petitioner and the Transformer Company over a period of more than two years during which these sales were being made with full knowledge of respondents,²⁶ indicate most clearly a desire for extensive royalties by the wider market that comes with *sales* rather than simple *licenses* or *leases* to users, and an intention to rely on the efficacy of "license notice" restrictions alone, as attached to the articles. That is the tenor of the licensors' instructions on inquiry from the Transformer Company, written long before any transactions with petitioner.²⁷ That furnishes the sole logical and intelligible explanation why respondents, during the two years they concededly knew of the sales being made to petitioner by the Transformer Company, never protested; never returned the royalties they received on these very sales until more than a year after this

²⁴ *Keystone Driller Co. v. General Excavating Co.*, 290 U. S. 240, 245, quoting from *Bein v. Heath*, 6 How. 228, 247.

²⁵ Vol. I, pp. 332-335; Vol. III, pp. 1414-1423.

²⁶ Vol. III, pp. 1568-1614.

²⁷ Vol. II, p. 1214, fol. 3642.

action was commenced; never sued the Transformer Company for any breach of the license agreement; never cancelled it; and permitted it to run until its natural expiration.³⁸ If those sales were "outside the scope of its license", as the majority opinion holds, a simple notice of cancellation would have effectually put an end to it. It is no answer to say a patentee may choose whom to sue amongst alleged infringers. This is not such a case because no infringement suit would have been required if respondents had honestly believed the Transformer Company was violating its contract by selling to petitioner, and had promptly acted accordingly.

Instead, respondents permitted the sales to continue without interruption, and although the bill herein was filed in 1929,³⁹ the sales, with the knowledge of respondents, continued to the expiration of the Transformer license agreement in August, 1931.⁴⁰ Indeed, this action was not brought to trial⁴¹ until after a preliminary injunction had been granted⁴² against respondents for violation of the anti-trust laws with respect to the very business in which petitioner and respondents were competitors, and involving talking motion picture equipment that would be useless without the amplifiers purchased by petitioner from respondents' licensee.

³⁸ Vol. I, pp. 344, 349, 468; Vol. II, p. 1216; Vol. III, pp. 1568-1614.

³⁹ Vol. I, fol. 1578.

⁴⁰ Vol. III, pp. 1568-1614.

⁴¹ Vol. III, fol. 4854.

⁴² *Stanley Co. of America, Inc. v. American Tel. & Tel. Co., General Talking Pictures Corporation v. American Tel. & Tel. Co., Duovac Radio Corporation v. American Tel. & Tel. Co.*, 4 Fed. Supp. 80; on final hearing 18 Fed. Supp. 650.

Such conduct surely does not warrant the interpretation given by this Court to the acts of the Transformer Company in selling, and petitioner in buying, the amplifiers in suit. Nor does it warrant what is in effect an overruling of the decisions of the Court for nearly a century that once *title* has passed to patented articles on a sale by a patentee or a licensee empowered to make and sell, those articles are freed of any and all restrictions on their use and disposition that the patentee may seek to have run with them in the hands of the purchaser.

There is, moreover, a further important aspect mentioned but not argued at length in the briefs or on oral argument and which, therefore, petitioner asks the Court to consider on this petition for rehearing, not alone because of the disastrous effect the decision, if unaltered, will have on petitioner, but on the public as well.

The patents which this Court has now found to be infringed were among those that formed the basis for a series of contractual engagements between respondents and the overwhelming majority of the leading motion picture producers and exhibitors in the United States, by the terms of which, it has been adjudged, respondents violated the anti-trust laws in establishing and continuing a monopoly with respect to equipment in which, as has been above noted, the amplifying devices with which this suit is concerned, are a material component part.⁴³ Petitioner and respondents, as parties to that suit, have both appealed—the petitioner because of the District Court's refusal to grant a permanent injunction due to respondents' statement that the practices complained of were stopped, though the contractual limitations which the Court found illegal were still

⁴³ *General Talking Pictures Corporation v. American Tel. & Tel. Co.*, on final hearing, 18 Fed. Supp. 650; see Note 42, page 18.

in the agreements complained of, and the respondents from the holding of violation of the anti-trust laws.

Moreover, both in that anti-trust suit and in the case at bar, it appears that respondents' patents are included in patent pooling agreements commonly known as the Radio Trust,⁴⁴ discussed in the minority opinion but without reference to the authorities making such pools illegal if beyond the scope of the patent law, and therefore giving sufficient ground for this Court of its own motion,⁴⁵ the entire record being before it on certiorari,⁴⁶ where such illegality appears, to refuse to aid the claims of any patentee arising out of such agreements or other inequitable situations.⁴⁷

In litigation that in many aspects closely paralleled the case at bar, and which, in its civil phase⁴⁸ petitioner asks this Court to consider as determinative of the fundamental error of the majority opinion herein, license agreements of the very type entered into between respondents and the Transformer Company, and based on a pooling of patents relating to motion picture apparatus, were held illegal and violative of the anti-trust laws.⁴⁹ Petitioner respectfully submits that there is no point of difference of any legal import between those cases and the one at bar except that in the Government suit in the *Motion Picture Patents* case

⁴⁴ Vol. III, pp. 1305-1413.

⁴⁵ *Oscanyon v. Ams Co.*, 103 U. S. 261, 267.

⁴⁶ *Story Parchment Co. v. Paterson*, 282 U. S. 555.

⁴⁷ *Continental Wall Paper Co. v. Voight & Sons Co.*, 212 U. S. 227 at p. 262; *United States v. American Tobacco Co.*, 221 U. S. 106, 181; *Keystone Driller Co. v. General Excavating Co.*, 290 U. S. 240, at p. 245.

⁴⁸ *Motion Picture Patents Co. v. Universal Film Mfg Co.*, 243 U. S. 502.

⁴⁹ *United States v. Motion Picture Patents Co.*, 225 Fed. 800; appeal dismissed 247 U. S. 524; cited with approval in *Standard Oil Co. v. United States*, 283 U. S. 163, 174.

the patent pool was not nearly so extensive and not nearly so much of an unlawful encroachment on the business life and interests of the public, and that the adjudged illegality of that pool, and the adjudged invalidity of the restrictions sought to be imposed by the patentee, in that case, on purchases of the motion picture apparatus through the medium of licensees having the power to make and sell with such restrictions, should be conclusively determinative of the issues in the case at bar in favor of petitioner.

Conclusion.

We have endeavored to show by the foregoing that the question presented by this cause is of such scope and of such far reaching effect as to be of vital public importance. The majority opinion so materially upsets established doctrines of patent law that, for the foregoing reasons, the case should have the careful consideration of the full bench of this Court.

In consequence, petitioner respectfully and earnestly urges upon the Court this petition that the case be further heard.

SAMUEL E. DARBY, JR.,
EPHRAIM BERLINER,
Counsel for Petitioner.

We hereby certify that the foregoing petition for rehearing is, in our opinion, well founded, and that it is presented in good faith.

SAMUEL E. DARBY, JR.
EPHRAIM BERLINER